

## Business Model Innovation for Red Hat to Increase Revenue in Indonesia Banking Industry: The Case of Bank Berdaya Bersama

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**ABSTRACT:** The advancement of digital technology and the change in user behavior rise a new challenge for the banking industry in Indonesia, users are now more sensitive to a good customer experience, and less loyal. Another challenge for banking is a disruption from fintech. To face these challenges, banks have started programs to transform themselves to meet the current demands. This transformation program thus increases their technology along with banks' technology budget allocation. Red Hat as a technology provider based on open source needs to compete with many players in Indonesia's IT industry.

Using Bank Berdaya Bersama as a point in case, this study is prepared to build an innovative business model for Red Hat in increasing revenue and facing competition in Indonesia's banking industry.

**KEYWORDS:** Business Model, Red Hat, Indonesia Bank Industry, Value Innovation

### INTRODUCTION

The term open source is generally referred to open-source software. It means that the code used to build the software is designed to be publicly accessible; anyone can see, modify, and distribute the code as they see fit. The open-source movement in software began as a response to the limitations of proprietary code, which in contrast, applies some licensing rights to use, modify, share modifications, or share the software.

Red Hat, founded in 1993, is a company that provides an open-source solution for enterprises. It is currently the largest opensource company valued at \$34 billion when they acquired by IBM in 2019 (Red Hat, 2019). In 2017, Red Hat open its subsidiary in Indonesia, PT Red Hat Indonesia. Currently, the telecommunication and banking industries are the biggest revenue contributors for PT Red Hat Indonesia.

The challenges raised by user behavior and the rise of fintech triggered a digital transformation in the banking industry in Indonesia. In line with their transformation, banks' technology spending also increases. The following table below shows the IT spending plan for some banks in Indonesia

**Table 1.** Bank IT Spending 2022

Bank	Planned IT Spending in 2022
Bank Mandiri	IDR 4 trillion (Kontan.co.id, 2021)
Bank BRI	IDR 3.5 – 4.5 trillion (Bisnis.com, 2022)
Bank BNI	IDR 300 – 400 billion (CNBC Indonesia, 2022)
Bank BTN	IDR 350 – 400 billion, estimated from 2021 spending (kontan.co.id, 2021)
Bank BCA	IDR 5 trillion (Lembong, 2021)

Increased IT spending in Indonesia's banking industry attract many players. Red Hat needs to compete not just with incumbent players, but also with public cloud providers that have started opening their region in Indonesia.

### LITERATURE REVIEW

According to Markides, business model innovation can be defined as "the discovery of a fundamentally different business model in an existing business" (Markides, 2013). There are a few ways of reaching business model innovation, one of them is proposed by Osterwalder & Pigneur in their book Business Model Generation, by blending the blue ocean strategy, four actions framework, and the business model canvas.

The Blue Ocean strategy is the simultaneous pursuit of differentiation and low cost to open a new uncontested market space and create a new demand (Kim & Mauborgne, 2015). To achieve this state, Chan Kim and Renée Mauborgne propose ERRC (Eliminate, Reduce, Raise, Create) framework, a tool can help companies focus simultaneously on eliminating and reducing waste, as well as raising and creating new opportunities

The Business Model Canvas is a tool that can help you develop new business models and document existing ones. This chart provides a visual overview of a company's key value proposition, its infrastructure, its customers, and its financial situation (Osterwalder & Pigneur, 2010). There are many variations of the business model canvas, Osterwalder canvas has nine boxes, consisting of customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure. The explanation of each block below is taken from the Business Model Generation book by Osterwalder dan Pigneur

1. Customer Segment building block defines the beneficial groups of people or organizations an enterprise aims to reach and serve.
2. Value Propositions building block describes the bundle of products and services that create value for a specific customer segment
3. Channels building block describes how a company communicates with and engages its customers to deliver a value proposition that meets the needs of each group.
4. Customer Relationship building block describes the types of relationships a company establishes with customers in specific customer segments.
5. Revenue Streams building block describes how a company generates from each customer segment.
6. Key Resources building block describes a company's important assets required to make its business model work.
7. Key Activities building block describes the most important things a company must do to make its business model work
8. Key Partnership describes the network of suppliers and partners that make a company's business model work.
9. Cost Structure describes a company's expense to operate its business model.

**METHODOLOGY**

The research is started with a problem statement and research objectives, followed by an external and internal analysis of the business environment. Market sizing using TAM, SAM, SOM method, Porter's 5 Forces, Competitor Analysis, and Perceptual Map will be used as an external analysis tool for this final project. VRIO and Business Model Canvas will be used as internal analysis tools. The result of external and internal analysis along with internal data will then be used to build a SWOT analysis.

TOWS matrix to generate strategic options then built from SWOT analysis. Generated options from TOWS, will be clustered in the Value Innovation ERRC framework and used to build the proposed new business model canvas

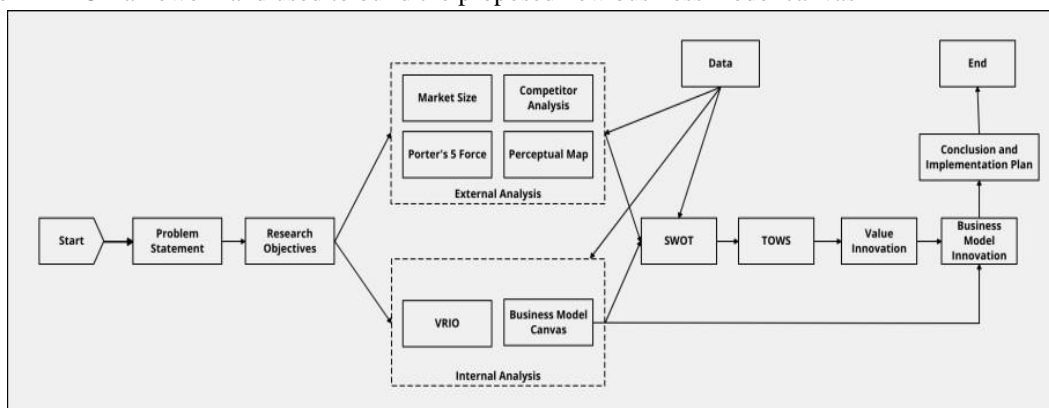


Figure 1. Methodology

The research methodology that will be used is a hybrid method. Qualitative analysis will be used within PT Red Hat Indonesia (management and account team) and quantitative analysis will be used to collect data from IT professionals.

Primary data will be collected by using multiple methods:

1. A questionnaire with Red Hat internal consists of Enterprise Account Manager, Solution Architect, and Consulting Services



2. FGD (Focus Group Discussion) with the Sales Manager, Services Manager, and Solution Architect Manager in PT Red Hat Indonesia.
3. A questionnaire spread to IT professionals from multiple industries.

The gathered information will be further analyzed coherently to the conceptual framework. Then, the secondary data will be gathered from PT Red Hat Indonesia’s internal data, public websites, academic journals, and papers.

**FINDINGS AND ARGUMENT**

The result of market size analysis using a TAM, SAM, and SOM method is shown in the following table. Data was taken from Red Hat internal data and calculated using a bottom-up method. From the size of the market, Indonesia’s IT banking industry is a potential market for Red Hat and still offers many opportunities.

**Table 2.** Market Size Summary

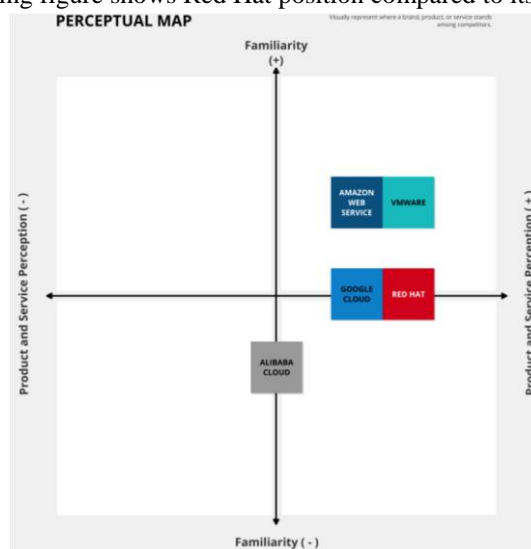
Item	Value
TAM	IDR 1,8 trillion
SAM	IDR 168 billion
SOM	IDR 16,8 billion

Porter's Five forces are also used to measure an industry or market's competition intensity, attractiveness, and profitability (Porter, 2008). Based on this analysis, Indonesia’s IT banking industry is still attractive to some extent.

**Table 3.** Porter Five Forces Summary

Bargaining power of suppliers	Medium
Bargaining power of buyers	Medium
Threat of substitutes	High
Threat of new entrants	Medium
Industry rivalry	Medium

To further analyze Red Hat in the industry, a perceptual map is used to visually compare Red Hat to its competitor in Indonesia. To get the data, a set of questions are asked to 20 IT professionals from multiple industries to assess their knowledge of Red Hat products and its competitor. The following figure shows Red Hat position compared to its competitor.



**Figure 2.** Perceptual Map



Based on VRIO analysis and discussion, benefit from its open-source principle allow Red Hat to obtain a competitive advantage in almost all lines except user experiences. Data for VRIO analysis is gathered from a focus group discussion with a group of Red Hat managers.

**Table 4.** VRIO analysis

Resources	V	R	I	O	Competitive Consequences
Technology	✓	✓	✓	✓	Sustainable Competitive Advantage
Brand Equity	✓	✓	✓	✓	Sustainable Competitive Advantage
User Experience	✓	✓	✗	✗	Competitive Party
Innovation	✓	✓	✓	✓	Sustainable Competitive Advantage
Organization Culture	✓	✓	✓	✓	Sustainable Competitive Advantage

The result from internal and external analysis then used to build SWOT analysis for Red Hat. From the SWOT, TOWS table then generated to build strategy option for Red Hat. Result from TOWS matrix then used to build the following ERRC matrix:

**Table 5.** ERRC Table

Eliminate	Raise
Eliminate offering in Infrastructure products (Red Hat Virtualization, Red Hat OpenStack)	Red Hat Open Innovation Lab service offering
Reduce	Create
Professional service offering and mixed it with local partner service.	<ul style="list-style-type: none"> <li>- Partnership with Amazon Web Service (which has better position in perceptual map) in selling solution.</li> <li>- Hybrid cloud solution with combination of on-premises and public cloud solution</li> </ul>

By blending the current business model canvas with the ERRC framework, the following business model canvas for Red Hat can be generated

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
<ul style="list-style-type: none"> <li>- Local System Integrators</li> <li>- Local Distributor</li> <li>- Amazon Web Services</li> </ul>	<ul style="list-style-type: none"> <li>- Product sales</li> <li>- Professional Service</li> <li>- After sales service</li> <li>- Marketing and promotion</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Solutions that can run anywhere (Hybrid Cloud)</b></li> <li>- <b>Red Hat Open Innovation Lab</b></li> </ul>	<ul style="list-style-type: none"> <li>- Red Hat Support Portal</li> <li>- Account Manager</li> <li>- Professional Services</li> <li>- Local System Integrators</li> <li>- Amazon Web Services Platform</li> </ul>	<ul style="list-style-type: none"> <li>- Large and medium enterprises</li> </ul>



	<p><b>Key Resources</b></p> <ul style="list-style-type: none"> <li>- Software</li> <li>- Sales and Service Team</li> <li>- After sales team</li> <li>- <b>Amazon Web Services Team</b></li> </ul>	<p>for</p> <ul style="list-style-type: none"> <li>- Open-source software Enterprises:</li> <li>- Platform software</li> <li>- Application Development software</li> <li>- Automation software</li> <li>- Experienced Professional Service <b>working together with local partner</b></li> <li>- Self-service training and certifications</li> </ul>	<p><b>Channels</b></p> <ul style="list-style-type: none"> <li>- Redhat.com</li> <li>- Local System Integrators</li> <li>- <b>Amazon Web Services</b></li> </ul>
<p><b>Cost Structure</b></p>		<p><b>Revenue Streams</b></p>	
<ul style="list-style-type: none"> <li>- Service Delivery cost</li> <li>- Sales and marketing cost</li> </ul>		<ul style="list-style-type: none"> <li>- On-premises software subscriptions</li> <li>- <b>Public cloud usage fee</b></li> <li>- Consulting Services</li> <li>- Training/certification</li> <li>- After Sales Services</li> </ul>	

**CONCLUSIONS**

The result of this research is to suggest a new business model for Red Hat in Indonesia’s banking industry. Changes to the new business model mainly focused on Red Hat's technology abilities to run on multiple infrastructures such as on-premises and public cloud. The second change to the business model is to form a partnership with one of the public cloud providers in Indonesia. To increase its revenue and stay ahead of the competition in Indonesia’s IT banking industry the newly generated business models need to be formulated into strategy and action items for Red Hat Indonesia to implement.

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